Goldman Sachs | Equity Research

11 November 2020 | 1:27AM EST

Utilities: Tidbits and takeaways from EEI

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PM Summary

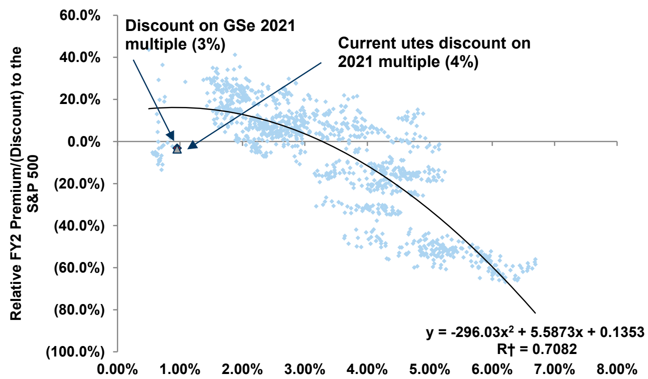
We come away from our 2020 Edison Electric Institute (EEI) meetings with management with two major themes:

1. **Clean energy transition and lowering emissions:** Companies remain focused on transitioning their generation fleet towards renewables, reducing emissions while supporting increased investments. Both state policy (Renewable Portfolio Standards) and federal tax credits (ITCs/PTCs) along with declining renewable costs are driving the transition.
2. **Shrink to grow opportunities:** Corporate simplification - either announced or in consideration - are driving many of the Diversified Utilities (CNP, DTE, EXC, PPL) as management teams seek to simplify the story and close valuation discounts.

We remain positive on utilities despite recent upticks in share prices and valuations as the sector still trades at a discount to the S&P500 versus a historical 20%-25% premium in a similar low-rate environment. Additionally, utility yields continue to screen favorably in comparison to IG bonds and the UST 10-year. Our top picks include renewable/green names such as NEP and WTRG (both Buy-rated and on the CL), while attractive generation fleet transformation plays include AEE, DUK, and PNW. For more value opportunities, we also see compelling upside in Buy-rated value names FE and PCG, along with Diversified Utilities with SOTP discounts like Buy-rated DTE, EXC and SRE (on CL).

Exhibit 1: Utilities currently trade at a discount to the S&P 500, at a 20%-25% discount to what history would imply in a low rate environment

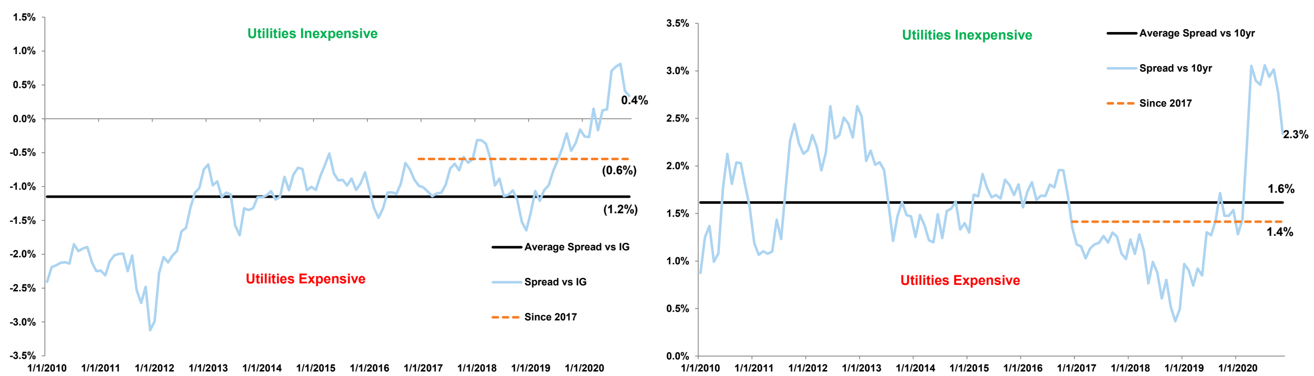
Utilities FY2 P/E premium/(discount) to the S&P vs UST 10-year yields



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 2: Utilities continue to trade above average yield spreads in relation to IG bonds and US 10-year treasuries

Utilities yield vs IG bonds vs UST 10 year



Source: FactSet

Top 10 Takeaways from EEI

1. **WTRG expects increased municipal water system acquisition opportunities,** driven by potential increased focus on water quality at both the federal and state levels.
2. **SRE appears still super bullish LNG growth** and financing options for developing new LNG without needing sizable contributions from SRE to fund construction.
3. **Securitization and the wildfire certificate process could drive relief rallies in PCG** – as PCG does not seem significantly concerned on receiving the wildfire safety certificate in the near term and securitizing debt in the longer term.
4. **EVRG maintains high conviction in its Sustainable Transformation Plan (STP)** — recognizing though that new state legislation in KS/MO is the key driver to this, with no clarity coming before early 2021.
5. **D highlights its sizable clean energy related growth at its core regulated VA**

electric utility - but recognizes permitting hurdles and rate making in VA (longer term) and SC (near term) present risks.

6. **EXC remains a sum of the parts story - and the company does not embed a "carbon value"** in its assessment of its ExGen subsidiary's potential value.
7. **CNP continues to see upside to its regulated growth plan,** at both the electric and gas utilities, while continuing to assess options to reduce its midstream exposure as expeditiously as possible.
8. **PNW remains confident in its robust renewable/storage investment plans,** which should achieve both de-carbonization and long-term customer rate benefit, while looking for a constructive clean energy recovery mechanism.
9. **DTE's 2021 guidance includes more contingency than normal.** Management indicated that given the ongoing pandemic and the uncertainty related to load and margin mix, they believe that they incorporated more than the typical level of conservatism in their initial guidance.
10. **More settlements in Michigan?** With both DTE/CMS announcing rate case settlements this year, the management teams indicated that the new MPSC composition coupled with significant multi-year filings approving large chunks of capex ahead of time could bode well for more settled rate cases in the future.

Company Takeaways

We hosted meetings at the fall EEI (Edison Electric Institute) conference - an industry conference for US utilities. We highlight the following company updates:

- **PPL expects to compare all options against simply reducing debt and buying back shares with potential UK sale proceeds**, but debt reduction remains key post sale to elevate FFO/debt target ~15%-16% from current ~12%-13% level - as detailed in our prior note on this topic. The company hopes, once becoming a pure play US utility, to trade more in line with peer levels post the sale. Likely a federal cash tax payer soon, diversifying into renewables may allow PPL to utilize tax credits and we note management prefers solar over wind from a competitive perspective. Upside may exist to rate base growth in Kentucky — but not till 2022 or later - as they plan to file an Integrated Resource Plan (IRP) in the state to outline gradual generation fleet changes in this coal heavy state.
- **With AZ commission elections complete, PNW remains confident in medium-term renewables/storage investment plans with conviction in ability to demonstrate cost competitiveness.** The company continues to target procurement of utility scale solar coupled with storage aggressively and believes higher clean energy in resource mix creates significant fuel savings despite initial bill impacts. In the ongoing APS rate case, PNW proposed in the recent rebuttal testimony the Advanced Energy Mechanism (AEM), which would provide rider recovery of renewable/storage investments. If not approved in the rate case, the company looks to push the proposal separately, reducing rate case filings while

aligning clean energy investment goals. On the financing side, while the outcome of the rate case would give additional clarity on the timing/magnitude of equity issuance (current forecast at around $300-$400mn), management expects issuance timing as prior to the next rate case filing, while noting that an approval of a clean energy rider could help push back such a filing and/or mitigate the amount.

- **CMS remains well positioned to continue executing with supportive regulation and a constant eye on operational improvements.** Management reiterated the low hanging fruit of fuel (Palisades; MCV) and O&M (Karn 1&2 and defined contribution vs benefit) tailwinds benefiting the customer over the current 5 year plan. However, CMS emphasized that the real value continues to come from operational cost improvements that heighten the quality of experience for both customers and employees as ways to benefit all stakeholders in MI. The state remains focused on decarbonizing and CMS believes that their current targets and plans already remain on track or exceed those goals while offering significant growth. However, management did note that energy storage remains an area where the next IRP could see more investment sooner and the coal Campbell Units 1 &2 could potentially retire earlier. Management sees multi-year filings as providing support for potentially settling rate cases given more known and already agreed upon factors during future rate cases, but noted the ongoing electric rate case is already far along given the PFD. CMs does not view longer-term trackers as likely, preferring the flexibility with annual or near annual filings, indicating that performance based ratemaking has come up and is already evident in energy efficiency and RPS spend.
- **ETR sees, as part of its multi year guidance, modest under earning levels continuing — and sizable rate base growth as well - but regulatory risk remains.** The company anticipates earning 9%-9.5% RoE levels - below authorized - given rate increase caps or regulatory lag in a few jurisdictions like AR, MS and LA. The FERC docket for its SERI segment could present downside - they've highlighted $0.15+ of EPS at risk, largely to finance refunds, but believe they could potentially mitigate this. Recent 2020 storms likely cost roughly $2bn - they hope to securitize these, based on precedents in Louisiana and Texas - otherwise financing this could weigh on earnings slightly. Low utility rates relative to other utilities remains a tailwind for rate base growth - they seek to add $1.4bn of renewables to the system over the next few years and could add emerging technologies (a new CCGT that is hydrogen capable) as well - RFP processes, especially for its Texas utility, remain key for investors to monitor. Finally, the company - while not a large coal fired generator - still owns the sizable White Bluffs facility in Arkansas with plans to retire in the late 2020s - an earlier expected retirement, being evaluated now, could add to rate base and earnings growth.
- **AGR remains confident in its offshore wind timeline, in addition to its growth through PNM and NECEC.** On Vineyard Wind, the company is expecting final environmental impact statement (EIS) this week and final approval by end of year, but notes an approval delayed until 1Q2021 would not alter their 2024 COD target. Given this timeline, AGR would still qualify for 18% ITCs, while looking to take advantage of any extensions/changes to offshore wind ITC rules if appropriate. The

company also reiterated its interest in onshore transmission for future offshore wind projects, which is not embedded in the current capital plan. On the New England Clean Energy Connect (NECEC) transmission project, AGR continues to monitor the Maine citizens' initiative as the group plans for a 2nd referendum in opposition, but management believes the project's clean energy and economic benefits to the state will outweigh the opposition arguments. Despite the hurdles to overcome with a project of this magnitude, management expressed interest in considering other future large-scale transmission projects to route clean energy to the NY/NE area to meet clean energy targets. Regarding the company's balance sheet forecast, while AGR looks for Moody's to relax the downgrade threshold for post the PNM acquisition, the guided 14.5%+ FFO/debt from 2022-2025 embeds a potential one-notch downgrade at Moody's.

- **The Florida utilities remain a growth engine for NEE while seeing only modest rate case risk - the renewable segment benefits from massive tailwinds and advantages.** NEE anticipates filling a joint rate case for FP&L and Gulf Power in Florida, where 4 of the current 5 PSC commissioners will oversee the 2021 rate case process. While they likely will seek a rate increase, they recognize RoE risks exist - but they also see potential for continued lower costs going forward that would create headroom for higher rate base growth. The company still sees buyer power, financing advantages, lower O&M costs, site selection skills and economies of scale as their biggest advantages in renewables given their status as the biggest US operator - and an extension of renewable tax credits would not change this, if the new administration in Washington pushes for this. Hydrogen grabs a lot of mind share today - they do not see this as a major near term (2021-25) contributor to earnings, but like energy storage 8-10 years ago, see this as worth monitoring as cost curves improve.
- **CNP sees incremental capital spend spread across its electric/gas jurisdictions,** with 2/3 of the $3bn incremental plan expected at the electric utilities (TX/IN). Electric items include transmission connections for increasing solar build in TX, investments to support customer growth (2-2.5% in TX, 1% in Indiana), while gas investments primarily consist of accelerated gas pipe replacements. Management expects the guided 1-2% annual O&M reductions through 2025 driven by unearthing sustainable O&M savings, conversion from coal to natural gas/renewables, and utilizing technology to improve efficiencies. CNP looks to shift to a majority electric utility profile - partly driving its plan to divest one or two of its regulated gas utilities - while continuing to assess options to reduce its midstream exposure as expeditiously as possible.
- **WEC benefits from a favorable service territory - especially for gas utility service - and believes the current state administration will back its recently announced fleet transformation plan**. With Governor Evers' climate task force still underway, WEC does not fully know the impact of any proposals that will emerge - but they believe retiring older coal/gas units and replacing with solar and storage, along with new gas capacity, will fit in well with broader policy objectives. Cost management could continue in the coming years — while 2020 benefited from greater than originally anticipated levels, more integration could drive even lower

costs. As a utility in a cash tax paying status, WEC could continue buying renewable projects and keeping the tax benefits - a competitive advantage versus others who need tax equity.

- **DTE maintains outsized regulated growth and contingency in its initial 2021 guidance, noting more cost headroom over time translates to more investment from their substantial backlog of opportunities.** The current 5-year plan assumes regulated net income growth in excess of 7-8%/9% at DTE Electric/Gas, offsetting REF roll-offs and equity conversion headwinds during 2022-2023. While the current capital expenditure forecast implies slower levels during the back half of the 5-year plan, if management can find more cost savings they can pull forward more distribution and potentially renewable capex into the plan. DTE noted that given the uncertainty related to the ongoing pandemic, their initial 2021 guidance implies more than their typical 1 standard deviation below normal load in cushion. Other topics included an expectation to assess retiring the Belle River (2030) and Monroe (2040) coal plants earlier in the next IRP, which could require more capex in 2024/2025 to replace the Belle River capacity but would also require accelerated depreciation of the rate base. Management believes that providing more granularity on a standalone GSP/DTE Midstream company will create value for shareholders, highlighting the strength of their platform and opportunities for growth – especially in the Haynesville as well as the Nexus/Link platforms.
- **Potential corporate structure changes - as initially outlined by EXC in its 3Q2020 release - drove a sizable portion of our discussion with EXC,** as the company evaluates a possible separation of ExGen from the regulated businesses. Realizing higher valuation levels remains a key aspect of the decision making process - but regulatory approvals at state/federal levels remain key as well to whether they move forward or not with any changes. They do not "price in" or assume a value for carbon or a carbon tax when assessing the company's largely nuclear ExGen fleet — as they do not seem overly optimistic of a national carbon regime emerging soon - but see this as a "call option" not embedded in their base case. The company reiterated plans to meet its regulated utility EPS growth guidance given out previously - despite the impact of weak demand driven partially by COVID 19.
- **For AEP, while earned RoE's may decline, higher equity layers could offset this partially.** In our chat with management, they discussed that guidance assumes a low 9% range for earned RoE's - driven by regulatory lag in jurisdictions like Oklahoma and Louisiana - but hope to offset this with increased investment in projects with trackers and with higher equity layers in rates. The new 5-year capital spending plan incorporates not just the North Central wind project, but other smaller scale renewable spend as well as incremental transmission investment.
- **Dominion faces limited regulatory risk in the near term, but acknowledges longer term risk still exists.** The 2021 triennial earnings review in Virginia creates limited risk given the $50mn cap on revenue reductions, but the company did recognize that (1) risk in Virginia exists in the 2024 review, where no revenue reduction caps exist and (2) the ongoing South Carolina rate case may see

intervenor testimony that seeks a far lower rate increase than sought by Dominion. Potential changes at the state utility regulatory commission remain worth monitoring in Virginia. D stays positive on gas utilities given trackers that exist in markets like Ohio, paired with opportunities to grow renewable natural gas and even do its first small scale hydrogen pilot test in Utah. D also iterated that it does not expect change in the company's views on its remaining contracted assets like Cove Point LNG or Millstone nuclear in CT.

- **SRE remains very bullish its mix of US utilities and infrastructure businesses - and expects positive LNG related news in the coming months.** With SRE having sold its Latin American utilities and its US renewable business in the last year, the company's new simplified structure should prove easier for investors to understand going forward. Rate base growth remains material in California given the transition to clean energy - and even with a potential risk to authorized RoE's for 2022 there, authorized levels remain above national averages. Texas remains a growth opportunity - they just raised rate base growth projections by $300mn and could see another $775m+ upside in the coming years - and do not expect an overly contentious rate case proceeding in 2021. On the LNG front, Sempra expects to FID the Costa Azul LNG project - and assume limited construction risk — with only $250m of Sempra's equity capital used to finance this project - and still see Port Arthur LNG as one of the few US facilities potentially moving forward in the coming years.
- **WTRG highlights increasing water quality focus as a potential catalyst to support municipal water acquisitions.** While increased federal funding for water infrastructure, if implemented, could deter certain acquisition opportunities, management expects smaller systems to continue to face funding shortages, especially when combined with potential increase in water quality standards. On its recently acquired Peoples Gas system, WTRG expects pipeline replacement to fuel robust rate base growth at Peoples, while its low pressure systems and above-ground checkpoints enhancing its operational safety.
- **ED continues to face uncertainty related to COVID-related costs and storm response,** while reiterating its equity issuance plan (up to $600mn in 2020, $1.1bn total from 2021-2022) with an update expected with 4Q2020 earnings. At CECONY, ED sees potential investment opportunities to improve grid reliability, including potential for additional undergrounding of its distribution system. ED also looks to continue growing its renewable footprint, although offshore wind remains above its risk tolerance level except for associated onshore transmission investments. Finally, management reiterated its view that its midstream equity stakes in Mountain Valley Pipeline (MVP) and Stagecoach are non-core while looking to mitigate the exposure.
- **DUK anticipates trying to put together a coalition to seek electricity related state legislation in N Carolina** – seeking (1) revised rate making – including multi-year plans, decoupling and/or trackers, (2) policy support for a timeline around coal plant retirements, (3) detailed emission reduction targets and (4) policy support for offshore wind. Cognizant of managing the rate impact, which remains key to get industrial customers on board, the company may need to agree to annual or multi-year rate caps. However, we note their IRP (Integrated Resource Plan) base

case assumes ~1% annual rate change and the more aggressive no carbon plan assumes ~2.5% annual increases - so none that appear overly material or that would drive rate concerns for customers. Increased spend at the gas utilities will help drive overall rate base growth - they still see these businesses as attractive growth opportunities - as would higher solar related spend at the Florida electric utility. Florida remains worth monitoring given (1) a proposal to add 750 MWs of community solar, which will go before the PSC in late 2020 and (2) next year's rate case, where DUK will likely seek small rate increase levels.

- **The regulatory front and wildfire recovery will drive EIX from here**. EIX remains bullish regarding changes in California utility regulation — they see faster regulatory decisions as showing the state utility commission wants to work in a more expedited approval process. Recent approvals on securitization, insurance cost recovery, COVID 19 cost deferral and recovery, and wildfire spend recovery (2018-2020), show the state continues to see utilities as necessary "partners" in moving to a cleaner energy economy. They view the cost estimates for 2020 wildfires as likely falling within insurance recovery levels and continue to work to resolve claims related to the 2017/2018 wildfires, after reaching settlements with public entities and the subrogation claims holders. EIX still plans to issue $1bn in common equity - more likely doing so after wildfire season ends in late 2020 and as they get closer to reaching settlements with claimants from prior wildfires — and can utilize $800mn of insurance to pay out claims for now on the 2018 wildfires.
- **XEL looks to continue its robust renewable investment pipeline,** while ITC/PTC extensions - if realized - could support incremental renewable PPA buyout opportunities. Along with the renewable theme, XEL highlighted its commitment to support EV infrastructure and increased EV adoption, with $500mn of planned investments across its various jurisdictions. Finally, XEL expects to be able to grow at the upper half of 5-7% EPS growth guidance with just its base capital plan, while the proposed $1.4bn in incremental wind/solar investments could pad the growth toward the upper end of the guidance range, supported by a flattish base O&M CAGR through the mid-2020's.
- **In our discussion with PG&E Corp's (PCG) interim president and other officers, the company highlighted skills sought in incoming CEO/CFO** level personnel - with announcements likely in the months ahead on who will fill these seats. Operational experience, political and regulatory expertise remain key to the skillset needed for PCG's incoming CEO — while the CFO search focuses on individuals with strong investor relations skill sets as well as in balancing capital spend goals with the impact on customer rate levels. The company did not seem overly concerned regarding the Wildfire Safety Certificate process - they view the delay as more of a technical issue - and hope to get resolution soon. The 2019 certificate remains in place unless the state regulator outright rejects their 2020 application. PCG still anticipates $625m of costs related to the 2019 wildfire - but upside to this may exist and certainty may not emerge for another 1-2 years. They remain optimistic about cost savings opportunities as well as on securitization - they hope to finalize the regulatory docket by late spring 2021 and utilize securitization proceeds to pay down temporarily issued debt in the near term (up to $6bn), with

plans to pay down $3bn of outstanding holding company debt over the next 2-3 years. Upside may exist to rate base forecast levels - but risks to the authorized RoE for 2022 remains given the state's cost of capital mechanism.

- **Grid infrastructure investment remains top of mind for AEE, while continuing its fleet transition initiatives.** In Illinois, while management continues to pursue passage of the proposed legislation to extend formula rate-making (expiring in 2022) while opening the doors for renewable investments, they view traditional rate-making as relatively constructive as well given a future test year and de-coupling. In Missouri, the utility noted positive feedback and reception from all stakeholders on the recently filed Integrated Resource Plan (IRP) which, combined with ongoing grid investments in the state, should provide robust long-term rate base growth. Management noted that an extension of renewable tax credits - if implemented, could warrant further acceleration of its renewable growth plan.

- **EVRG remains focused on the state legislative front in Kansas and Missouri - outcomes next year likely will significantly impact earnings growth** and realizing EPS targets. The company still believes, as outlined at 2Q2020 earnings, that retiring up to 500 MWs of coal generation earlier than planned - and securitizing these costs - and redeploying the proceeds into new renewables remains, along with raising transmission/distribution investment, the best growth strategy available. They believe strong support exists for energy transition planning in Kansas — and will seek consensus backing on this in Missouri next year - but risks exist that other low cost alternatives, besides simply company owned generation in rate base, could emerge and present a modest risk to their goals of adding more renewables to rate base. Higher transmission spend comes with limited lag — they anticipated higher levels for multiple years to help Kansas integrate wind capacity, but actually see a bit of an uptick in its smaller segment in Missouri (Missouri West). EVRG does not see asset sales as likely needed or leading to lower costs - early retirements remain the core driver.

- **AWK spoke on opportunities to address water contaminants even in the absence of a federal water quality mandate,** which could drive both organic and inorganic growth via continued acquisitions of small municipal water and wastewater systems. While private capital is present in larger systems, AWK is best positioned to do tuck-in deals with 20,000 customers or less, as they can provide investment and improved service while spreading costs across the entire AWK business. The company still expects the NY utility sale to close in early 2021, with NY commission approval the only outstanding condition. AWK continues to replace water pipes within its system, and is targeting a 100-year replacement cycle versus 120-130 years currently compared to many municipal systems at 200 years. AWK's military business continues to see good traction, with numerous opportunities and proposals currently in the works while the Homeowner Services Business has seen some headwind from COVID-19 in 2020 but margins should be stable moving forward ex-COVID.

- **NI continues to see both electric and gas utilities as integral components of the US energy mix.** Management sees an attractive growth trajectory for both types of Utilities, noting that the recent pressure on regulated natural gas valuations in the public markets does not appear to reflect the fundamental value they deliver for customers that is not easily replaced. The company does see opportunities to decarbonize on the natural gas side through infrastructure replacement as well as RNG, especially given Ohio and Indiana offer attractive RNG resource – noting this will represent a small amount of volume. On the electric side, management highlighted that potential renewable tax credit extensions could potentially support further acceleration of coal retirements, pulling Michigan City earlier than 2028. Separately, NI reiterated that management remains comfortable with current guidance, incorporating ~$0.05 of impact related to COVID.

- **POR continues to see state-driven clean energy goals supporting on-going renewable/storage investments in Oregon,** as well a growing focus on EV infrastructure opportunities, especially for industrial customer base. With the recent state wildfires mostly contained, POR continues to assess the overall cost from an expense/capital standpoint, although they see the levels as largely manageable and supported by the approved cost deferrals from the state commission. POR in 4Q2020 earnings looks to provide an update on both the wildfire cost estimate as well as thoughts on timing of the next base rate case; for 2021, the company looks to grow earnings (using 2019 as the base and 4-6% long-term growth forecast) driven by cost management, benefit from the completion of the Wheatridge renewable facility, and lower costs associated with the retired Boardman coal plant.
- **OGE focuses on maintaining and growing its regulated electric utility profile, primarily through continued transmission & distribution investments at its Oklahoma/Arkansas jurisdictions, supported by improving regulatory frameworks through certain investment recovery mechanisms.** While fleet de-carbonization is not a primary investment driver near-term, OGE does see select solar opportunities that could combine with gas-fired generation in replacing retiring coal plants. Finally, management views the growth of its regulated utilities as the primary use of any capital allocation opportunities.

Valuation and Key risks

PPL Corp. (PPL, Neutral): $31/sh 12 month target price is based on a sum of the parts analysis. Key risks include regulatory risk, power demand and financing.

Pinnacle West Capital Corp. (PNW, Buy): $94, 12-month price target based on 19.5x P/E multiple on 2021 EPS. Key downside risks include 1) APS rate case outcome corresponding to our bear-case scenario that could pressure valuation multiples in the near-to-medium term, 2) realized electric demand is worse than expected, impacting earnings and cash flows, 3) the November 2020 election results in a non-constructive commission, and 4) PNW is unable to secure much ownership in future renewable generation build-out, limiting rate base growth.

CMS Energy Corp. (CMS, Buy): $69, 12-month price target based on 24x 2021 P/E multiple. Key risks include regulation, legislation, cost management, and financing.

Entergy Corp. (ETR, Buy): $119, 12 month target price based on a sum of the parts analysis. Primary risks include regulatory risks, power demand and financing.

Avangrid Inc. (AGR, Sell): $45, 12-month price target based on a sum-of-the-parts analysis. Key upside risks for AGR include 1) AGR receives approvals to defer all COVID-19 related costs, mitigating the earnings impact, 2) incremental O&M savings help offset other EPS headwinds, and 3) U.S. government extends federal renewable tax credits, which improve future renewable investment return profiles for AGR's renewable business.

NextEra Energy Inc. (NEE, Neutral): $74, 12-month price target based on a sum-of-the-parts analysis. Key risks include Florida utility regulation, renewable development, tax credit legislation, and operating cost management levels.

Centerpoint Energy Inc. (CNP, Neutral): $22, 12-month price target is based on a sum-of-the-parts valuation. Key risks include customer demand/growth, COVID-related costs, and financing.

WEC Energy Group (WEC, Sell): $88, 12-month target price based a 22x P/E multiple on our 2021 EPS. Key risks to our view include higher than expected capital spend and rate base growth for 2021+, lower than expected operating costs and improved demand.

DTE Energy Co. (DTE, Buy): $142, 12 month price target derived from a sum-of-the-parts valuation. Multiple risks exist to our current view of DTE: (1) Unlike a sale, spinoff valuation remains an unknown for shareholders, if midstream valuations change due to adjustments in legislation, taxes, or supply and demand balances in a negative way, this could impact DTE's valuation. (2) The regulated asset base – representing ~70% of earnings today and theoretically 90% post spin-off – maintains a single state regulatory environment. If MI sees significant changes in regulatory quality – especially the ability to earn timely recovery on investment as well as authorized returns — this could impact our view. (3) Similarly, demand, cost, and investment trends in the state remain critical. (4) DTE currently offers a substantial regulated growth profile, in order to finance this DTE may require equity beyond our forecasts or debt financing costs ahead of our expectations.

Exelon Corp. (EXC, Buy): $53, 12-month price target based off a SOTP analysis. Key risks include retail MWh sales, power prices, generation output, and utility regulation.

American Electric Power (AEP, Neutral): $90, 12-month target price based on SOTP. Key risks include power demand, rate case and regulatory risks, as well as financing.

Dominion Energy Inc. (D, Neutral): $84, 12-month target price based on SOTP. Key risks include regulation, project execution, power demand and financing.

Sempra Energy (SRE, Buy on CL): $150, 12-month price target derived using SOTP. Key risks include project awards, regulatory approvals, construction, and financing.

Essential Utilities (WTRG, Buy on CL): $51, 12-month price target based on SOTP. Key risks include regulation, municipal water system acquisition approvals, and longer-term growth concerns about the gas utility weighing on valuation.

ConEdison (ED, Sell): $78, 12-month price target based on 18x P/E on 2021 EPS. Risks include NY utility commission authorization of COVID-19 related costs and bad debt expense, NY economic conditions, renewable segment growth.

Duke Energy (DUK, Buy): $99, 12-month price target based on 19x P/E on 2021 EPS. Key risks include utility regulation, power demand and coal ash related issues.

Edison International (EIX, Buy): $74, 12-month price target based on 17x P/E on 2022 earnings discounted back to 2021. Key risks include wildfire related costs, litigation claims, utility regulation and financing.

Xcel Energy (XEL, Neutral): $71, 12-month price target based on 20x P/E on 2021 EPS. Key risks include upward revisions to rate base/EPS growth, O&M savings, renewable tax credit extension, negative rate case outcomes, less generation in rate base, materialization of PPA buyouts, COVID-19 related cash drag.

PG&E Corp. (PCG, Buy): $15, 12-month price target based on 14x P/E on 2022 EPS discounted back to 2021, and DDM. Key risks include wildfire risk, continued underearning due to legacy holding costs, financing risk and trading risk.

Ameren Corp. (AEE, Buy): $93, 12-month price target based on 24.5x P/E on 2021 EPS. Key risks include regulation, project awards, and financing.

Evergy, Inc. (EVRG, Neutral): $58, 12-month price target based on 18x P/E on 2021 EPS. Key risks include utility regulation, power demand and cost management.

American Water Works (AWK, Buy): $166, 12-month price target based on 39x P/E on 2021 EPS. Key risks include water quality issues, cost management, regulatory environment, growth at non-regulated segments, reduced ESG fund flows.

NiSource (NI, Buy): $27, 12-month price target based on 20x P/E on 2021 EPS. Key risks include Indiana regulatory approvals for renewables, earnings/cash impacts due to COVID-19, higher than expected O&M, electricity demand and customer growth, and financing.

Portland General Electric (POR, Sell): $39, 12-month price target based on 16x P/E on 2021 EPS. Key risks include COVID-19 impacts on earnings/cash, level of COVID/wildfire related cash drag, renewable ownership, and M&A target risk.

OGE Energy (OGE, Neutral): $35, 12-month price target based on 18.5x P/E on 2021 EPS. Key risks include upsized rate base growth, the company could be a target of a take-out, customer and demand growth, further distribution cuts at ENBL, COVID-19 headwinds.

Disclosure Appendix

Reg AC

We, Michael Lapides, Insoo Kim, CFA, David Fishman, CFA, Rebecca Yuan and Adam Williams, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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GS Factor Profile

The Goldman Sachs Factor Profile provides investment context for a stock by comparing key attributes to the market (i.e. our coverage universe) and its sector peers. The four key attributes depicted are: Growth, Financial Returns, Multiple (e.g. valuation) and Integrated (a composite of Growth, Financial Returns and Multiple). Growth, Financial Returns and Multiple are calculated by using normalized ranks for specific metrics for each stock. The normalized ranks for the metrics are then averaged and converted into percentiles for the relevant attribute. The precise calculation of each metric may vary depending on the fiscal year, industry and region, but the standard approach is as follows:

Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

For a more detailed description of how we calculate the GS Factor Profile, please contact your GS representative.

M&A Rank

Across our global coverage, we examine stocks using an M&A framework, considering both qualitative factors and quantitative factors (which may vary across sectors and regions) to incorporate the potential that certain companies could be acquired. We then assign a M&A rank as a means of scoring companies under our rated coverage from 1 to 3, with 1 representing high (30%-50%) probability of the company becoming an acquisition target, 2 representing medium (15%-30%) probability and 3 representing low (0%-15%) probability. For companies ranked 1 or 2, in line with our standard departmental guidelines we incorporate an M&A component into our target price. M&A rank of 3 is considered immaterial and therefore does not factor into our price target, and may or may not be discussed in research.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

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Goldman Sachs Investment Research global Equity coverage universe

	Rating Distribution			Investment Banking Relationships		
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Global	49%	35%	16%	64%	57%	54%

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